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TRADE POLICY BETWEEN LATIN AMERICA AND THE UNITED STATES: AN ANALYTICAL ASSESSMENT

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ABSTRACT

Many changes have taken place in United States trade politics, which are affecting the way the United States presently carries out trade policy and legislation with Latin America and the rest of the world. The United States Administration, Congress, interest groups and the public all play an important role.

As part of the United States economic strategy to secure economic growth, employment, and higher standards of living, trade has become an integral component and is specifically related to opening United States markets around the world. This approach now forms the core of the United States trade policy agenda. In keeping with this strategy, the United States has been looking for ways to increase its export markets with Latin America and one way is through integration schemes.

The new trade policy in the United States and partisanship advantage, could play a more decisive role in determining the pace and direction of hemispheric integration or trade agreements than economics alone. The postponement of Chile's accession to NAFTA until after the election is not surprising, given the relationship between American public scrutiny on trade issues, trade policy and votes. A better understanding of how these mechanisms work and are interrelated could make it possible to avoid misjudgement of the intricacies inherent in United States priorities and interests, which leads to disappointments in Latin America.

This paper is a preliminary step and contribution towards analysing what goes on inside United States trade politics, as well as its relationship with and its limitations with respect to Latin America, taking into account the major changes inherent in the structure of United States policy-making in trade matters.

I. OVERVIEW

In a post-cold war world, United States foreign policy objectives are changing and another framework is being formed. New economic and political policies are supplanting traditional anti-Communist ones where trade and economic development have an increasingly important role to play.

Developing nations are the fastest growing market for American-made goods and services. High value-added goods and high-tech machinery originating in the United States sell very well in developing countries. An increase in the standard of living in Latin America means new opportunities for the United States, as Latin America buys more goods from the United States.[1] Although this view, based on market opportunities and "mutual benefit" represents a clear change from traditional aid-related activities, there are major discrepancies and disagreements between and among United States political parties, interest groups and the public in general as to the direction United States trade policy should take, as will be analysed below.

The objective of this paper is to assess United States trade politics and how it impacts on future trade policy and the process of integrating the Americas. For the governments of the region, it is important to understand United States party politics and how it influences trade issues in order to strengthen their negotiating position and to enable them to participate more actively in the process of integration. What is the United States interest in embarking on free trade areas (FTAs) with Latin America? What obstacles are foreseen and which groups in the United States are committed to carrying out these integration schemes? Who stands to gain or lose and why?

This paper will be divided into four parts, in order to deal with these issues. The first part will present an account of present United States party politics and trade policy. It will analyse the complexity of United States trade policy within the context of the United States political scene —partisan and bipartisan support, special interest groups, and present trade strategies. The second part will provide an analytical account of present trade patterns between the two regions as well as the major commodities traded, with a view to determining where there are sectoral interests in the United States that would support further integration. The third part will summarize the political implications of the NAFTA agreement: what the rationale behind NAFTA is, which groups oppose or favour NAFTA and what is the likelihood of its expansion to other hemispheric countries. The fourth part will address the proposal for the formation of a Free Trade Area of the Americas —its purpose and political feasibility. In concluding, it will provide policy recommendations for the region based on all these results.

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[1] This new line of thought was reflected in the Office of the United States Representative (1994, pp. 8 and 9). Although this point of view is not necessarily new, United States commitment to this objective is stronger and more realistic than before. See Fauriol and Weintraub (1995, p. 126); Atwood (1995, p. 15); and McLarty III (1995).

II. UNITED STATES PARTY POLITICS AND TRADE POLICY

A. POINTS OF VIEW ACCORDING TO POLITICAL PARTY

In the latter half of the twentieth century, international trade in the United States has not been a major partisan issue nor has it been used by the American electorate as a means of differentiating one party from the other. This was due to the lesson learned by both parties from the Smoot-Hawley bill, which was widely believed to have contributed to deepening the Depression by introducing the highest tariff rate structure in United States history.[2] After the Second World War, the commitment to help rebuild Western Europe and the emergence of the United States as an economic power with no serious competitors were important factors in favouring trade liberalization. In this environment, there was continuity in trade policy across numerous United States administrations regardless of party, in favour of free trade.

None the less, in the course of time there was some drift in the degree of commitment towards free trade on the part of the two major political parties. Democrats had traditionally favoured liberal trade and lower tariffs. But, by the late 1960s one major faction in the Democratic Party, the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) and other groups in organized labour, had stopped supporting liberal trade because they felt foreign countries subsidized their products and dumped them in the United States, putting United States producers at a disadvantage. Republicans, who had traditionally been more prone to protectionism, began to favour more liberal trade policies, especially after 1970 because of their overall scepticism towards government interventionist policies (Destler, 1995, p. 177).

Another important step in this reversal has been attributed to the shift in geographic dominance of the two parties. In the past, Republicans had a political hold in the North-eastern and Midwestern states, which are historically more protectionist and unionized. However, in the last decade Republican support has gradually shifted to depend more heavily on the Southern states, which are more in favour of free trade and are less unionized (Destler, 1995, p. 31). This shifting did not strongly polarize each party, although it has become common to perceive Democrats as more protectionist and Republicans as more favourable towards free trade. Yet, in spite of party differences, until 1980 trade was still handled in a bipartisan, consensus manner.

After 1980, United States trade politics changed dramatically. The old system was replaced by a complex and at times contradictory process for formulating international trade policy. More importantly, United States trade politics became more partisan and less committed to liberal trade. Restrictive practices

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[2] Before 1932, Republicans favoured tariffs to help build businesses while Democrats favoured trade liberalization.

proved politically more acceptable than before, drawing trade policy towards partisan advantage and it has remained so until today. The change in trade policy can be attributed among other things to the fact that: a) an increasing interdependence in the global economy has made foreign competition more visible, prompting the rise of special interest groups; b) trade has become more important economically to the United States and consequently has increased United States interest in expanding overseas export markets; c) protectionists and open traders from both parties and from intellectual centres have questioned the applicability of a liberal trade ideology at a time when other countries subsidize and protect their own markets; d) Congress has become more open to public scrutiny, making trade policy legislation more of a public matter; e) the United States public have come to see a connection, rightly or not, between imports and job losses, which makes them more protectionist than before.

B. RISE IN INTEREST-GROUP POLITICS

The 1970s and 1980s brought significant changes in interest-group politics and in the number and range of industries seeking and getting protection. This period was characterized mainly by a massive influx of imports, a swelling trade deficit, higher unemployment, and a Congress that was becoming more responsive to interest groups in business and labour. It was also a time when American firms were facing increasing competition from foreign firms and were losing markets outside the United States.

Interest groups attributed their loss of market share to unfairness in the trading system as a whole and to unfair Japanese trading practices in particular. A persistent trade deficit with Japan and the export success of the Asian newly industrializing countries (NICs) also contributed to increasing frustration and disillusionment with the benefits of liberal trade. In this context, specific firms and industries in the United States have been arguing that free trade is obsolete in a world characterized by government intervention in the market place. Their main message is that: a) foreign countries keep their markets closed to American imports, putting American producers at a disadvantage; b) foreign governments use subsidies, procurement regulations and technical standards favouring their national producers; c) since other nations subsidize and protect their industries, the United States should respond in kind otherwise the result will be a continuous weakening of the United States industrial base. These views, while not universal, are held by conservative and liberal groups alike.

The general consensus in American society is that the United States trade deficit is due to "unfair" practices by other nations, it and other possible explanations appear to be ignored. The appreciation of the United States dollar in the early and middle 1980s eroded United States producers' competitiveness with respect to the outside world and appears to be the principal factor responsible for increasing the United States trade deficit and worldwide loss of market share —not unfairness in trade per se (Bayard and Elliot, 1994, p. 14). Sluggish growth in Europe and Japan coupled with the debt crisis in Latin America depressed import demand in these countries and contributed to the rise in the trade deficit, along with the recent United States habit of financing expenditures and investment through sales of assets and debt and through borrowing from abroad, instead of through use of domestic savings as Japan does.

The increase in interest groups and protection is facilitated in a general way by a chronic political imbalance between those who benefit from trade protection and those who pay the costs. Producers and workers threatened by imports are organized and likely to take action on their own behalf while consumers are diffused, disorganized and at times not aware of the costs placed upon them by protectionist practices. Although in the past export producers have influenced United States trade policy, recently they have not been as effective as producers threatened by imports.

None the less, the general view that foreign trade practices are "unfair" has not resulted in the United States adopting selective, Japanese-style industrial policies as part of a long-term industrial plan. Quite the opposite, United States trade policy has been closely linked to specific interest groups according to their political strength. Presently, there are relatively high levels of protection for a scattering of industries and agricultural products without any coherent strategic pattern: declining industries (textiles and clothing), dynamic industries (semiconductors), defence industries (maritime shipping and machine tools), and regionally-based industries (Midwestern automobiles and steel). Similarly, protection for agricultural products (fruits and vegetables, wheat, peanuts, cotton, tobacco, dairy products, sheep and sugar) seems unrelated to any strategic plan for increasing American farm exports (Krueger, 1995, p. 15).

What is most important to note here is not the correctness of the general consensus in the United States on any one issue, e.g., the United States trade deficit, but the fact that trade itself has become a hotly contested issue in American society. Interest-group politics are on the rise and as a result politicians are more inclined to give in to their demands in exchange for votes —a clear change from the way trade politics were handled in the past, as will be analysed below.

C. CHANGES WITHIN THE UNITED STATES CONGRESS AFFECTING FREE TRADE

In the United States Constitution, Article 1 grants Congress sole power to regulate international trade. It does not grant the President any trade-specific authority. For most of the post-war period, however, Congress had been restrained in exercising its power to regulate trade. Legislators worked with the executive branch, allowing it to take the initiative in coordinating between domestic interests and United States trade policy. During this time, Congress almost never legislated specific import protection, although Congress did drift towards favouring more trade intervention (Destler, 1995, p. 66).

By 1985, at the end of this gradual process of change, Congress was ready to play a more direct role in the setting of United States trade policy. Two of the most immediate factors that contributed to this shift in policy were: a) the unprecedented United States trade deficit; and b) the weakening of the Ways and Means Committee of the House of Representatives —the more important of the two congressional committees responsible for originating general trade legislation. Externally, Congress was being pressured into trade intervention by the public's perception of the trade deficit as a major economic problem and their demands for tougher action to expand exports to closed foreign markets. Within Congress itself, internal reforms were introduced in order to cut back the power delegated to the Chairmen of the Ways and Means Committee. A direct effect of this congressional restructuring was the elimination of the practice of preparing trade legislation in private (Wiarda, 1994, p. 119). In the past, liberal trade policy had been founded in part on the use of closed committee meetings that shielded legislators from lobbying by interest groups until the drafting of a trade bill was complete. Now, with open meetings individual congressmen and senators who wanted to resist protectionist pressures were more reluctant to do so before the eyes of special interest lobbyists.

A key result of this increase in congressional sensitivity to public opinion on trade issues, and one which is of particular interest to Latin America, has been the failure to renew the fast-track system.

The fast-track system was created under Section 151 of the Trade Act of 1974. Its original purpose was to define the process of authorizing and implementing international agreements concerning non-tariff

barriers to trade. It began by granting the Executive branch the power to negotiate an agreement. Once the President formally submits to Congress a bill implementing an agreement, both houses must vote on the bill within 90 days of presentation —accepting or rejecting it without any amendments whatsoever. This was done in order to enhance the President's credibility abroad when undertaking trade agreements by guaranteeing that Congress would respond with quick legislative action. This process in a way excluded the Senate and House from the main action of negotiating agreements, thereby shielding Congress from pressures to change items in favour of individual domestic interest groups. Throughout this process, the Office of the United States Trade Representative (USTR) would function as a coordinator between the President, Congress and the private-sector. It would manage a private-sector advisory system, consult with Congress and chair the inter-agency committees that develop trade policy with the Executive Branch (Office of the United States Trade Representative, 1994, p. 109).

The fast-track process enjoyed widespread congressional support, being renewed five times during a 15-year period. After its birth in 1974 it was extended in the Trade Agreements Act of 1979, and was broadened to include bilateral trade deals in the Trade and Tariff Act of 1984. The fast track was later extended in the Omnibus Trade and Competitiveness Act of 1988, and extended once again by Congress in the spring of 1991 until 1994 (Destler, 1995, p. 213). Under the fast-track system the Executive was able to conclude agreements with many individual countries —Israel (1985), Canada (1988) and Mexico (1991)— and to negotiate complex multilateral deals —the Uruguay Round Agreement (1994).

However, since the last extension in 1991, the decision whether to extend the fast track or not (and, if so, under what conditions) has become a visible and controversial public issue, making voting on the issue more vulnerable to pressures from both interest groups and critics who want the fast-track system to be reformed. A good example of the effect of interest groups on the renewal of the fast track has been provided by the issue of how the fast track should treat labour and environment issues. Appeals to and from different interest groups also illuminate the sharply partisan divisions within Congress on trade issues. The United States business community generally opposes inclusion of environmental protection and rules on worker rights and labour standards in new trade agreements and has made its views known to Congress in various ways. As a result, the Republicans have taken a position in support of the business community that these issues have no place in "free trade" agreements. Democrats, on the other hand, favour their inclusion as a way to bring back votes lost from organized labour and environmental groups that actively opposed the accession of Mexico to the NAFTA agreement. These two interest groups feel that not including these provisions indicates that trade negotiations are only about protecting the interests and property of business at the expense of workers and the environment.

In this atmosphere of partisan politics and heavy lobbying by opposing interest groups, in 1994 the United States Administration failed to win authority to employ fast-track procedures for future trade negotiations. Presently, it appears that no fast-track extension will take place until 1997 —that is to say, it must wait until after the next United States presidential elections to be attempted again.

In sum, the influence of interest groups and partisan politics has increasingly affected trade policy and the renewal of the fast-track system. Trade has become an important topic to the United States public, which implies that individual congressmen, and even the President, can lose re-election votes based on their positions on trade issues. This creates an opportunity for interest groups to apply pressure to Congress and to the Office of the USTR to block a given agreement. Thus, trade policy has become politicized in the United States because it can now be used for political gain or can adversely affect a politician's chances of re-election.

D. AGGRESSIVE UNILATERALISM

Another response to interest group pressure came about in 1985 when the Administration adopted the rhetoric of "free but fair" trade. At that time the United States introduced a new trade tactic whereby it began demanding that its trading partners should reduce barriers to United States exports and investment and that they should improve protection of intellectual property rights. This stance later evolved into what is better known as "aggressive unilateralism".[3]

Although the details of the process have varied over the years, the general approach has been to bring pressure to bear on a trading partner in two steps: first, a determination is made and an official report published documenting that a country has engaged in unfair trade practices; second, bilateral negotiations are undertaken to pressure the offending country into making specific concessions with the threat that the United States will retaliate if insufficient progress is made. This approach is labelled as "aggressive" because it seeks to pressure partner countries into making specific issue-by-issue changes without the United States agreeing to a broader framework of mutual concessions, and as "unilateral" because it explicitly avoids all multilateral institutions and agreements in favour of direct, one-on-one negotiations and remedies. In this area of United States trade policy the emphasis is clearly on export expansion through unilateral trade retaliation.

The retaliation measures mentioned above can be taken under several now famous provisions of United States trade law: Section 301, Special 301, and Super 301. Section 301 was created through the Trade Act of 1974. Its purpose was to authorize action against foreign export subsidies, later amended to expand the President's discretionary authority to retaliate against foreign barriers and amended again in the 1984 Trade and Tariff Act.[4] The last amendment authorized the USTR to initiate investigations without an order from the President. Later, Super 301 was established, through the Omnibus Trade and Competitiveness Act of 1988. It mandated a "results-oriented trade" action plan while allowing for a relaxation of the criteria for countries considered at fault. Under this plan, the USTR was to identify trade priorities, initiate cases and retaliate if necessary against unjustifiable practices. As part of the "results-oriented campaign any country can be identified as subject to Section 301 if it is thought to be engaging in a pattern of unjustifiable, unreasonable or discriminatory trade policies or practices having a significant adverse effect on United States commerce.

The identification process is highly political, and often countries can avoid being added to the list by making last-minute concessions. After the conclusion of the investigation if the matter is not resolved and if practices are determined to be unreasonable or discriminatory, the USTR determines whether action is appropriate and if so what action to take. It should be noted that the rules of Section 301 do not apply to the United States and that in fact, the United States has repeatedly violated rules in this section (Krueger, 1995, p. 66).

Although Section 301 and its associated sections have mostly been used against Japan, Korea and China, Latin American countries have also been subject to investigations. Almost every country in the hemisphere has been investigated at one point or another during the 1990s. From 1993 to 1994, Chile and El Salvador were on the "Special 301 watch list" while Colombia, Guatemala, Peru and Venezuela were added to the list during the same period of time (ECLAC, 1995, p. 8). In 1994, Argentina was placed on the "Special 301, priority watch list" because of its failure to upgrade its existing patent laws.

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[3] A term referred to by Bhagwati (1991).

[4] For a detailed description of Section 301 see Bayard and Elliot (1994, pp. 23, 27, 29 and 35).

Brazil has been a frequent target of Section 301 investigations and has been involved in a number of cases during the 1980s and 1990s. Using Special 301 which covers intellectual property rights (IPR), the USTR initiated a case against Brazil in 1985 on informatics and computer software, and again in 1987 on pharmaceuticals (Bayard and Elliot, 1994, p. 189, table 8.1). In 1989, Super 301 action was taken against Brazil for its import restrictions on roughly 1,000 items as well as its restrictive licensing system (Bayard and Elliot 1994, pp. 155 and 162). These actions by the United States prompted a request from Brazil to discuss Super 301 actions at the GATT. After Brazil liberalized its import policies, partly in response to United States complaints, the 301 investigation was suspended on May 1990. In 1993, the USTR initiated another investigation against Brazil regarding policies and practices that deny adequate and effective protection of intellectual property rights. On the basis of assurances that, as part of its own domestic reforms, Brazil will provide greater market access for products relying on the protection of intellectual property rights, the USTR decided to terminate the investigation in February 1995 (Office of the United States Trade Representative, 1994, pp. 96 and 100). In 1994 the Administration conducted a review in compliance with statutory requirements of countries whose procurement markets and practices have given recent cause for concern. Brazil was singled out for its computer, software, telecommunications and digital electronics sectors.

Finally, there is the ongoing case that was raised over Colombian and Costa Rican banana exports to the European Union. It nicely illustrates the new, heightened level of the involvement of the United States Congress in international trade disputes. In 1994, the USTR initiated Section 301 investigations against Costa Rica and Colombia for their practices regarding banana exports to the European Union in connection with the implementation of the Banana Framework Agreement. This agreement between the European Union, Colombia and Costa Rica established a specific quota for these two countries. In response the United States wishes this framework agreement to be eliminated, and the European Union to adjust its quota regime to accommodate the three new member States. The USTR argues on behalf of Chiquita Brands International the petition in Section 301 that the Framework Agreement and the European Union quota regime discriminate against United States firms, causing economic hardship to them (Inside U.S. Trade, 1995a, p. 6).

The Chiquita complaint has wide support from Congress because the company is a major contributor of funds to the national committees of both the Democratic Party and the Republican Party (Inside U.S. Trade, 1995b, p. 7). Given the political support for Chiquita in Congress and in the Executive, Administration officials are requesting that Colombia and Costa Rica renounce this agreement in order to avoid denial of trade benefits, i.e., Caribbean Basin Initiative, the Generalized System of Preferences, and the Andean Trade Preference Act. Negotiations are still under way.

It is worth noting that this case represents a new willingness for Congress to take unilateral decisions on trade policy. Congress has proposed various forms of retaliation in this case without the involvement of the Executive and even before an investigation under Section 301 has been concluded by the USTR. It is just this kind of single issue, "quick fix" legislation that the old-style trade politics and fast-track system tried to avoid. In this case a single company has been able to mount a campaign in Congress to have United States trade policy conform to its corporate interests. A study undertaken by the consulting firm Arthur D. Little International concludes that the United States challenge to the European Union banana regime is mostly directed at bailing out Chiquita from bad investments (Unside U.S. Trade, 1995c, p. 11). The case finally concluded against Chiquita and it will be taken to the World Trade Organization (WTO). Its importance, however, lies in how clearly it demonstrates the new vulnerability of the United States Congress to interest groups on individual trade issues.

E. ADMINISTERED PROTECTION

While negotiating bilateral and multilateral market expansion agreements, the United States tries at the same time to protect domestic markets from countries that it considers to be using "unfair trading" practices. Import restrictions and remedies are imposed through the rules contained in the Trade Remedy Laws which cover several areas: a) antidumping and antisubsidy provisions, and b) escape clause and unfair trade provisions. Even when remedies are not actually invoked these laws can be useful in bilateral negotiations as instruments of United States trade policy.

By threatening to invoke the Trade Remedy Laws, the United States can push for reciprocal market expansion and force partner countries to accept bilateral measures such as voluntary export restraints (VERs) as a compromise. This approach has been used in the past with Latin American countries that agreed to VERs on steel —Brazil, Venezuela, Mexico and Trinidad and Tobago, in particular (ECLAC, 1995, p. 6).[5]

The two measures most favoured for restricting imports are antidumping and countervailing duties, the former having become the "protectionist instrument of choice". Escape clause measures are now less favoured because their remedies expire after a fixed period of time and are difficult to renew. Unlike the escape clause, countervailing duties and antidumping remedies can continue indefinitely, or until the Department of Commerce determines that the remedy is no longer required.

The United States is gradually increasing the level of protection it provides under these provisions. Recently, the criteria for the USTR finding countries at fault has been relaxed. The transfer of responsibility for investigating foreign companies' product costs from the Treasury Department to the Department of Commerce has increased the number of favourable findings qualifying for "relief" measures (Kruger, 1995, p. 38). This is not surprising since the Department of Commerce has closer ties to the business community and thus is more sensitive to pressure from there. In spite of the fact that antidumping reform was one of the major items in the Uruguay Round talks, United States negotiators succeeded in watering down the provisions limiting the impact of the Uruguay reforms. The United States Administration did so to pacify domestic interest groups (Destler, 1995, p. 242).

Trade Remedy Laws are mostly known for their use against East Asian countries but these "remedies" have been directed at Latin America as well. At a time when the United States is embarking on integration schemes with the region and the implication of that process regarding the removal of barriers to trade, it is timely to look at the frequency of the use of such barriers against Latin American exporters. As of February 1995, antidumping duties are mainly in effect against Argentina (4 items), Brazil (13 items), Mexico (6 items) and Venezuela (4 items). Although in absolute terms this is not an alarming number, more than half have been invoked in the past three to four years. Likewise, the number of new countervailing duties has declined in the past years.[6]

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[5] See ECLAC, Washington, D.C., op. cit., p. 6. It is important to note that the NAFTA agreement left the Trade Remedy Laws intact (Sinclair, 1993, p. 229).

[6] For an itemized list see ECLAC (1995, p. 4).

In the current political climate it will be difficult for United States politicians to relax the Trade Remedy Laws and to tighten their criteria on what are considered to be "unfair traders", for fear of being labelled as advocates of unfair trading practices. The likelihood of any change in this area is further decreased by the growing activism of a Congress reluctant to antagonize its constituencies and interest groups over trade issues.

In summary, there is a new public awareness in the United States of trade issues and a belief that the United States is being hurt by carrying out an open trade policy when others are not. A growing enchantment with confrontational trade politics has weakened the United States commitment to multilateralism in favour of a bilateral approach, though balanced by widespread support for WTO and implementation of the Uruguay Round Accords.

At the same time, there has been a growing awareness among policy makers that United States exports earn significant revenues and contribute to the welfare of the United States economy by generating domestic employment. With this in mind, the next section will analyse present trade flows between the two regions. It will also identify those sectors which at the moment will benefit more from increases in trade in the two groups. In the case of the United States these industries would be the ones pressing for further integration with Latin America and lobbying congressmen on their behalf. It is the short-term benefit that will determine re-election potential; although there may be potential industries which may benefit in the long run, they more likely will not be organized to make a difference in whether to push for a trade agreement or not.

III. TRADE PATTERNS BETWEEN THE UNITED STATES AND LATIN AMERICA

The United States and Latin America are traditional markets for each other's exports. During the past few years while the internal structure of the United States market has changed little, Latin America has embraced more market-oriented, open and competitive economic policies. Trade barriers are being reduced across the board and internal reforms have been under way to facilitate foreign investment. Regional integration has accelerated and has been one cause of increased trade expansion. Latin America is the second fastest-growing region in the world, after the Asia-Pacific region, and thus offers many opportunities for United States exports to expand further. Latin America will be one of the two primary export markets for the United States by the year 2010,[7] and this is one of the principal reasons for the United States embarking on hemispheric regional integration. The following section will analyse the present trade flows and trends between the two regions to further illustrate this point.

A. PRESENT TRADE FLOWS

Since the emphasis in this paper is to better understand what are the United States interests in pursuing trade agreements and integration with Latin America, the analysis will be made from the point of view of the United States.

Over the last five years Latin America has been a major contributor to United States export growth. United States exports to Latin America grew faster than any other region in the world. Specifically, between 1990 and 1994, United States exports to Latin America increased by 79% while imports grew by only 38% over the same period of time. In 1994, Latin America bought from the United States US$ 88 billion in merchandise compared to US$ 49 billion in 1990.

Latin America represents 15% of total United States world exports and this share is growing. Mexico, Brazil, Argentina, Colombia and Venezuela represent the largest markets for the United States within Latin America, and exports to these countries are sustaining high growth rates. Between 1990 and 1994, United States exports to Mexico grew by 80%, Argentina 280%, Colombia 100%, Brazil 60% and Venezuela 30%. At the same time, United States imports have been growing at a much slower pace, with the exception of the Dominican Republic, where imports outpaced exports by 6% (see tables 1 and 2).[8]

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[7] See extract from USTR Bulletin (1995a, p. 3).

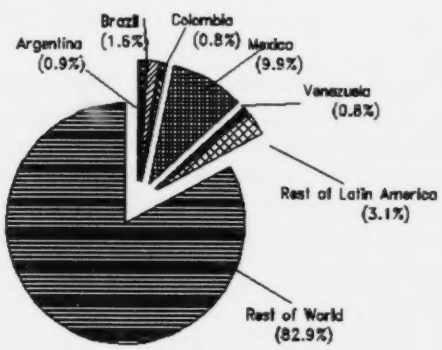
[8] For a detailed list of all countries see annex 1.

Table 1
UNITED STATES EXPORTS TO SELECTED COUNTRIES AND REGIONS
(Millions of US dollars)

Area	1990	1991	1992	1993	1994	Percentage change*
World	393 106	421 743	447 366	465 353	512 397	30.3
Canada	82 959	85 146	90 156	100 191	114 255	37.7
Japan	48 585	48 147	47 764	47 950	53 481	10.1
European Union	98 086	103 120	102 851	97 759	102 820	4.8
Latin America	48 944	58 521	71 095	73 358	87 635	79.1
Argentina	1 179	2 049	3 222	3 772	4 466	278.8
Brazil	5 062	6 154	5 740	6 045	8 119	60.4
Chile	1 672	1 840	2 455	2 605	2 776	66.0
Colombia	2 038	1 947	3 282	3 229	4 070	99.7
Costa Rica	992	1 034	1 348	1 547	1 867	88.2
Dominican Republic	1 658	1 743	2 098	2 350	2 800	68.9
Ecuador	680	948	999	1 098	1 196	75.9
Mexico	28 375	33 276	40 598	41 636	50 840	79.2
Venezuela	3 107	4 668	5 438	4 599	4 042	30.1

Source: International Monetary Fund (IMF), Direction of Trade Statistics Yearbook, se annex 1 Washington, D.C., July 1995.
* 1990/1994.

Figure 1
UNITED STATES EXPORTS TO LATIN AMERICA FOR 1994



Source: IMF, Direction of Trade Statistics Yearbook, Washington, D.C., July 1995.

Table 2

UNITED STATES IMPORTS FROM SELECTED COUNTRIES AND REGIONS

(Millions of US dollars)

Area	1990	1991	1992	1993	1994	Percentage change*
World	517 018	509 299	552 599	600 007	689 310	33.3
Canada	93 780	93 736	101 292	113 617	131 956	40.7
Japan	93 070	95 010	99 481	110 418	122 470	31.6
European Union	95 561	89 433	97 110	101 215	115 046	20.4
Latin America	63 853	62 269	68 257	74 306	88 149	38.0
Argentina	1 664	1 410	1 370	1 298	1 835	10.3
Brazil	8 586	7 232	8 145	8 021	9 307	8.4
Chile	1 571	1 525	1 627	1 702	2 073	32.0
Colombia	3 409	2 969	3 064	3 270	3 407	-0.1
Costa Rica	1 105	1 263	1 542	1 673	1 776	60.7
Dominican Republic	1 827	2 095	2 452	2 758	3 188	74.5
Ecuador	1 547	1 513	1 482	1 563	1 937	25.2
Mexico	30 797	31 866	35 886	40 745	50 356	63.5
Venezuela	9 938	8 777	8 636	8 707	8 989	-9.5

Source: IMF, Direction of Trade Statistics Yearbook, Washington, D.C., July 1995.
* 1990/1994.

B. PRESENT TRADE FLOWS IN RELATION TO OTHER REGIONS

Latin America is important to the United States as a region in and of itself but relative to other regions in the world as well. At times it goes unnoticed in the United States and in the rest of the world that quantitatively, Latin American countries are more important trading partners for the United States than many other larger or better known countries in other regions of the world.

Brazil imports more from the United States than all of the Scandinavian countries, and Mexico more than Germany, France and Italy combined. It is interesting to note that this applies especially to smaller Latin American countries. For instance, in 1994 the Dominican Republic imported more than or as much as India or Indonesia. El Salvador bought more United States goods than Pakistan, Chile bought more than Russia, Guatemala more than Portugal, and Costa Rica more than all of Eastern Europe. It is therefore not surprising that at the December Summit of the Americas in Miami the creation of a hemispheric free trade area was considered by some government officials to be of national and strategic importance for the United States.[9]

[9] See comments made by Brown and Bershefsky (1995).

Table 3

UNITED STATES EXPORTS: LATIN AMERICA VERSUS OTHER COUNTRIES, 1994

(Millions of US dollars)

Latin America	Exports	Exports	Other countries
Brazil	8 119	6 073	Denmark + Finland + Norway + Sweden
Chile	2 776	2 579	Russia
Costa Rica	1 867	1 678	Poland + Czech.Republic + Hungary + Rumania + Bulgaria
Dominican Republic	2 800	2 296	India
		2 811	Indonesia
El Salvador	932	719	Pakistan
		830	Greece
Guatemala	1 355	1 054	Portugal
Mexico	50 840	40 064	Germany + France + Italy
Peru	1 408	1 373	Austria

Source: IMF, Direction of Trade Statistics Yearbook, Washington, D.C., July 1995.

Latin American-United States trade has been a growing component of both regions' trade figures in the past few years. Latin America as a region has been importing from and exporting more to the United States than with other regions in the world for many years. In the period 1990-1994 the United States was continuously gaining market share at the expense of the European Union, Japan and the rest of the world. In turn, United States exports to Latin America have been rising more rapidly in the past four years, at 79%, than to Japan at 10%, the European Union at 5%, Canada at 38%, or the rest of the world at 35%, as indicated in table 1 (see table 4).

Table 4

TRENDS IN LATIN AMERICAN TRADE BY REGION

(Percentage of world trade)

	Exports			Imports		
	1988	1991	1994	1988	1991	1994
United States	35.9	37.0	43.8	38.2	41.1	44.6
European Union	23.0	22.5	17.4	20.6	18.6	17.7
Japan	6.0	5.9	4.6	6.8	6.3	6.2
Other	35.1	34.5	34.3	34.5	34.0	31.5

Source: IMF, Direction of Trade Statistics Yearbook, Washington, D.C., July 1995.

While the United States was increasing its export share to Latin America between 1988 and 1994, an interesting pattern in the destination of Latin American exports was forming at the country level. While a large number of countries, led by Mexico, the Central American countries and Venezuela, are increasing their export share to the United States, others —particularly the Southern Common Market (MERCOSUR) countries— are actually decreasing their export share to the United States and increasing it to non-United States, non-European Union markets, while others —such as Chile nd Colombia— have been diversifying their markets. At the same time, a handful of Latin American countries, all on the Pacific Rim, are increasing their share of exports to Japan, regardless of whether or not they are also increasing their exports to the United States, as indicated in tables 5 and 6.

Behaviour at the country level brings out the impact of political and preferential agreements on trade patterns. Nicaragua is a good example of politics playing a significant role in the dramatic shift away from the European Union and towards the United States, the effect of preferential agreements as in the MERCOSUR case, the maquila (inbond assembly) effect with respect to the increase in Central American exports to the United States and diversification strategies followed by countries such as Chile and Colombia. These results indicate that for a large number of South American countries the United States is a less important export market than for the Central American countries and Mexico. Correspondingly, the United States is exporting more to these countries what could be translated into an unbalanced trade relation on behalf of the United States. Bolivia and Paraguay are the only South American countries that increased their export share to the United States in the period under consideration.

Table 5
LATIN AMERICAN EXPORTS BY REGION: 1988, 1991, 1994
(Percentage of world total)

	1988				1991				1994			
	US	EU	Japan	Other	US	EU	Japan	Other	US	EU	Japan	Other
Latin America	35.9	23.0	6.0	35.1	37.0	22.5	5.9	34.5	43.8	17.4	4.6	34.3
Argentina	13.3	29.8	3.6	53.3	10.4	33.2	3.8	52.6	11.0	26.3	2.6	60.1
Bolivia	20.5	27.5	0.8	51.2	18.7	27.5	0.2	53.7	26.9	25.8	0.2	47.1
Brazil	25.8	27.7	6.7	39.8	20.2	31.2	8.1	40.6	19.0	27.4	6.7	47.0
Chile	19.4	36.1	12.3	32.3	17.6	31.8	18.2	32.4	17.3	23.3	16.9	42.5
Colombia	39.4	27.2	5.2	28.1	39.0	25.2	3.2	32.6	35.8	28.9	4.0	31.4
Costa Rica	44.5	26.0	0.8	28.7	46.7	27.4	1.3	24.7	47.7	25.7	0.7	25.9
Dom.Republic	60.5	18.8	4.5	16.2	64.0	21.6	3.6	10.8	46.6	27.9	2.1	23.4
Ecuador	45.9	9.3	2.5	42.4	48.0	16.7	2.2	33.1	44.3	20.7	2.9	32.0
El Salvador	39.6	27.4	4.6	28.4	33.8	22.1	2.7	41.3	44.1	21.5	0.6	33.7
Guatemala	28.6	20.0	2.4	49.0	37.5	11.1	2.8	48.6	37.5	11.8	2.6	48.1
Honduras	50.9	22.9	4.1	22.2	52.4	21.7	5.1	20.7	65.8	14.1	6.7	13.3
Mexico	65.9	13.1	6.0	14.9	69.5	12.4	4.6	13.6	80.4	4.7	2.1	12.7
Nicaragua	0.0	45.2	16.7	38.0	20.2	26.7	14.0	39.1	48.5	22.0	0.3	29.2
Panama	49.5	20.9	0.0	29.6	40.6	26.9	0.9	31.6	25.8	17.7	4.0	52.5
Paraguay	3.5	29.9	1.1	65.6	4.5	30.4	0.5	64.6	9.4	21.0	3.3	66.3
Peru	21.7	29.6	12.0	36.6	21.2	27.2	8.9	42.6	16.6	30.9	10.3	42.3
Uruguay	11.2	26.3	1.3	61.1	10.1	25.1	1.3	63.5	6.9	20.0	1.1	72.0
Venezuela	42.8	10.9	4.0	42.4	47.9	9.6	2.2	40.4	50.0	8.2	1.9	39.9

Source: IMF, Direction of Trade Statistics Yearbook, July 1995.

Table 6
LATIN AMERICAN IMPORTS BY REGION: 1988, 1991, 1994
(Percentage of world total)

	1988				1991				1994			
	US	EU	Japan	Other	US	EU	Japan	Other	US	EU	Japan	Other
Latin America	38.2	20.6	6.8	34.5	41.1	18.6	6.3	34.0	44.6	17.7	6.2	31.5
Argentina	17.3	29.3	6.6	46.9	18.0	22.4	7.2	52.3	23.2	29.3	3.5	44.1
Bolivia	21.8	12.5	11.8	53.8	25.9	15.7	12.3	46.2	19.9	12.3	14.4	53.4
Brazil	20.9	21.6	6.6	51.0	23.2	22.6	5.8	48.3	24.3	25.0	5.6	45.1
Chile	19.7	19.5	7.7	53.1	20.5	18.3	8.4	52.8	23.3	19.2	8.9	48.6
Colombia	35.1	19.5	10.4	35.1	37.2	18.2	9.4	35.2	37.4	18.6	9.5	34.4
Costa Rica	38.9	12.9	6.7	41.5	43.5	10.8	6.0	39.7	58.6	10.1	3.6	27.7
Dom.Republic	41.3	12.6	14.4	31.7	43.0	14.2	4.9	37.9	41.5	16.2	6.3	36.1
Ecuador	32.7	20.5	13.7	33.0	31.0	21.5	9.6	37.9	35.0	17.1	12.3	35.6
El Salvador	38.0	11.1	5.0	45.9	39.9	10.4	4.8	44.8	44.0	10.6	5.1	40.3
Guatemala	37.8	17.0	6.3	38.9	41.4	12.7	6.4	39.4	43.8	11.3	3.8	41.1
Honduras	41.1	14.3	8.9	35.7	39.5	14.7	8.7	37.0	58.4	9.7	5.0	26.9
Mexico	66.7	16.2	6.0	11.1	64.8	16.4	5.4	13.4	70.6	12.0	5.8	11.6
Nicaragua	2.5	20.1	3.2	74.2	25.6	12.0	6.6	55.8	24.5	10.1	4.2	61.3
Panama	37.7	10.8	4.5	47.0	35.8	7.3	6.8	50.1	27.4	7.0	18.6	47.0
Paraguay	10.3	19.6	7.3	62.8	14.4	14.0	12.5	59.0	26.3	9.7	5.7	58.3
Peru	29.9	24.0	4.7	41.4	25.0	19.6	5.7	49.7	28.2	16.3	6.4	49.1
Uruguay	7.9	20.9	3.0	68.2	9.9	17.1	3.8	69.2	9.4	19.2	2.8	68.6
Venezuela	42.3	27.8	5.3	24.5	47.5	22.6	4.9	25.0	43.2	21.0	4.5	31.4

Source: IMF, Direction of Trade Statistics Yearbook, July 1995.

C. TRADE BALANCES

A major issue of concern for United States policy makers, as mentioned in previous sections, has been the persistent United States trade deficit with the rest of the world. From 1991 to 1994, the United States trade deficit with developed countries increased by 207%, and the total for all developing countries by almost half, at 129% (Office of the United States Trade Representative, 1994, p. 23). In 1994 United States trade with Latin America was roughly in balance, the trade balance amounting to only US$ 514 million. This fact is important because it is the opposite of what has been happening with the Asia-Pacific region.

Table 7

UNITED STATES TRADE BALANCE BY REGION

(Millions of US dollars)

Region	1990	1991	1992	1993	1994
World	(123,912)	(87 556)	(105 233)	(134 654)	(176 913)
Canada	(10 821)	(8 590)	(11 136)	(13 426)	(17 701)
Japan	(44 485)	(46 863)	(51 717)	(62 468)	(68 989)
European Union	2 525	13 687	5 741	(3 456)	(12 226)
Other	(56 222)	(42 042)	(50 959)	(54 356)	(77 483)
Latin America	(14 909)	(3 748)	2 838	(948)	(514)

Source: IMF, Direction of Trade Statistics Yearbook, Washington, D.C., July 1995.

As described in the previous section, it is the United States trade deficit that has caused much discontent inside the United States and has made trade such a political issue in the past few years. On this issue Latin America can gain some political mileage at the expense of the East Asian NICs that have continuing surpluses with the United States. Among policy makers in Washington the difference in United States export performance between the two regions has been an added incentive in wanting to pursue further integration with Latin American as opposed to the Asian countries.

D. MAJOR COMMODITIES EXPORTED BETWEEN THE TWO AREAS

The focus of this paper is on the political process that surrounds FTAs in the United States. Political pressure in the United States does not come from industries without prior contact with Latin America. United States interest is not based on hopes or theoretical considerations. The major support for any new FTA in the United States is going to come from those businesses that already operate in the region and that believe that further expansion is possible. Under this assumption it is useful to analyse the existing commodity trade between the United States and Latin America in order to characterize and comprehend the nature of the links between the two.

In order to provide new empirical evidence, a comprehensive ECLAC data base was used and processed for all products imported by Latin America from the United States, at the Standard International Trade Classification three-digit level, and ranked by value, with the top 10 products selected. The same procedure was followed for exports from Latin America to the United States. These calculations show some interesting results, which are described below.

1. United States exports to Latin America

The United States exported to Latin America mostly high-tech equipment and industrial goods: motor vehicles, parts and accessories, computers, telecommunications equipment, electronics, electrical machinery, electrical power generation equipment and plastics and other chemicals. It is in this area that United States exporters have established market access with the region and would gain from increases in trade. Two points can be made on this: a) These are precisely the kind of goods the United States wants to be producing more of in the future, and b) this is precisely where the United States is competing most vigorously with Japan and the East Asian NICs.

Table 8

UNITED STATES EXPORTS TO LATIN AMERICA, 1993

(Thousands of US dollars)

Top 10 commodities	Value	Percentage
Motor vehicle parts and accessories	5 580 776	7.74
Cathode valves and tubes transistors	2 416 921	3.35
Articles of artificial resins and plastics	2 296 700	3.18
Automatic data processing machines	2 227 126	3.09
Electrical machinery and apparatuses	2 072 739	2.87
Telecommunications equipment	2 054 240	2.85
Electrical apparatus for making circuits	1 888 125	2.62
Equipment for distributing electricity	1 799 932	2.49
Manufactures of base metals	1 762 718	2.44
Polymerization products	1 498 722	2.08
Other products	48 545 634	67.29
Total	72 143 633	100

Source: ECLAC, External Trade Data Bank for Latin America and the Caribbean (BADECEL).

At the country level, the pattern is remarkably consistent, although the relative importance of individual commodities varies from country to country. High-tech equipment and intermediate industrial goods dominate throughout. Taking into account all Latin America, the main United States export is automobiles, parts and accessories, mostly exported to Mexico, Venezuela, Chile and Colombia; computers to Argentina, Brazil, Colombia, Chile and Paraguay; telecommunications equipment to Mexico, Argentina, Paraguay and Venezuela, and aircraft and associated equipment, to Argentina, Brazil and Colombia. Agricultural products are not in the list of the top 10 commodities, except for wheat exported to Bolivia and Ecuador, and tobacco to Paraguay (see annex 2).

2. Latin American exports to the United States

There are two parts to Latin American exports to the United States: a) trade in petroleum products, and b) trade in semi-manufactured and manufactured goods. The trade in oil includes not only the historical major producers —Mexico, Venezuela and Ecuador— but also newer producers, such as Colombia and Argentina, and amounted to more than US$ 10 billion in 1993. The United States also imported a large amount of refined products worth US$ 3 billion in the same year. The overall amount of petroleum related imports from Latin America was near 16% of total Latin American exports. Petroleum products are a traditional United States import and are unlikely to be affected greatly by any new FTA.

More interestingly, even looking just at the items on the top 10 list, trade in semi-manufactured and manufactured goods represented 30% of Latin American exports to the United States. Excluding crude oil, all of the other top 10 commodities exported to the United States were semi-manufactured and manufactured goods. The major Latin American exporters to the United States in this area, as expected, are the big three economies of the region, Mexico, Brazil and Argentina in descending order. Mexico is the largest exporter of these goods and with the NAFTA agreement is likely to continue being so, although Brazil and Argentina also play an important role.

The regional pattern favouring more semi-manufactured to manufactured goods exported to the United States is even more striking when it is compared with the commodity composition of Latin American exports to the world excluding the United States. Outside of its exports to the United States, Latin America appears to be a region exporting solely traditional exports, raw materials and agricultural produce except for passenger motor cars. These results seem to indicate that there may be more opportunity in diversification towards higher value-added goods by trading with the United States than with other regions, such as the European Union and Japan (see table 10).

At the country level, there are two very different patterns, apart from the petroleum trade: a) it is the large economies (i.e., Mexico, Brazil and Argentina) that are doing the trade in manufactured goods, and b) the other smaller countries that do not export manufactured goods are continuing to export traditional raw products and agricultural goods.

Table 9

LATIN AMERICAN EXPORTS TO THE UNITED STATES, 1993

(Thousands of US dollars)

Top 10 commodities	Value	Percentage	Major exporters
Crude petroleum oil	10 635 751	15.93	Argentina, Colombia, Ecuador Mexico, Venezuela
Passenger motor cars	3 296 026	4.94	Mexico
Petroleum products	3 198 421	4.79	Argentina, Bolivia, Brazil, Colombia, Ecuador, Peru, Venezuela
Equipment for distributing electricity	2 786 894	4.17	Mexico
Motor vehicle parts and accessories	2 138 043	3.20	Brazil, Mexico, Venezuela
Electrical machinery and apparatuses	1 996 945	2.99	Mexico
Television receivers	1 753 26[illegible]	2.63	Mexico
Telecommunications equipment	1 675 785	2.51	Mexico
Shoes	1 571 973	2.35	Brazil, Uruguay
Electrical apparatus for making circuits	1 504 512	2.25	Mexico
Other products	36 222 620	54.24	
Total	66 780 235	100.00	

Source: ECLAC, External Trade Data Bank for Latin America and the Caribbean (BADECEL).

Mexico, as expected, exports more manufactured goods to the United States than any other country in the region. The main suppliers of raw materials, in crude petroleum oil are Colombia, Ecuador, Venezuela, and to a lesser degree Argentina; Mexico exports more crude oil to the rest of the world. In minerals, tin is Bolivia's main export to the United States and copper for Chile, although Chile exports more copper to the rest of the world. The agricultural suppliers are Argentina with meat and fruit; Colombia vegetables; Chile fruit; Ecuador shellfish; and Uruguay fish and canned meat. For the majority of countries, however, among those commodities consisting of semi-manufactured goods, exports to the United States appear to predominate relative to exports to the rest of the world (see annex 3).

To summarize, both Latin America and the United States stand to gain from increases in trade. Latin America is buying many capital and high-tech goods from the United States, thereby supporting an area of production of strategic interest to the United States. On the other hand, the United States is buying more semi-manufactured and processed goods from Latin America than any other region in the world, so increased trade with the United States would benefit the region's effort to diversify into higher value-added goods.

This analysis shows that both sides would stand to benefit from further trade agreements between the two groups, if properly negotiated. However, as mentioned before, economics is not the only consideration in deciding whether to expand access to the NAFTA agreement to include other countries in Latin America. The issue of whether there is genuine commitment to forming the Free Trade Area of the Americas (FTAA) by the year 2005, and the likelihood of it happening, will be analysed below.

Table 10

LATIN AMERICAN EXPORTS TO THE WORLD, NOT INCLUDING UNITED STATES, 1993

(Thousands of US dollars)

Top 10 commodities	Value	Percentage
Crude petroleum oil	5 909 139	7.54
Animal feed	4 433 072	5.66
Petroleum products, refined	3 682 920	4.70
Copper	3 347 772	4.27
Iron ore and concentrates	2 381 236	3.04
Coffee and coffee substitutes	2 218 367	2.83
Passenger motor cars	2 076 876	2.65
Oil seeds and oleaginous fruits	1 879 948	2.40
Ingots, other primary forms of iron and steel	1 870 720	2.39
Meat and edible meat	1 736 091	2.22
Other products	48 821 848	62.31
Total	78 357 989	100

Source: ECLAC, External Trade Data Bank for Latin America and the Caribbean (BADECEL).

IV. NAFTA AND ACCESSION BY OTHER COUNTRIES

The North American Free Trade Agreement (NAFTA), presently between the United States, Canada and Mexico, addresses the challenges involved in integrating two industrialized economies with a developing country, and for this reason serves as one of the models for future United States trade agreements in Latin America. It also implies exacting commitments from its member countries. Some countries may and others may not be ready to achieve the full discipline inherent in a NAFTA accord. Likewise, other countries may prefer to enter into closer integration schemes with other regions, such as the European Union, by means of deepening and broadening MERCOSUR, while others may prefer bilateral agreements. Whatever else, the NAFTA agreement implies different objectives for each country involved, but the general consensus among specialists in the field is that the overall impact of NAFTA will be favourable, as examined below.

A. THE RATIONALE BEHIND NAFTA

NAFTA is a strategic response by the United States to global trends, i.e., an expanded and unified Europe, a stronger Japan, the formation of free trade areas in the Pacific Rim. NAFTA came about prior to a series of bilateral agreements in the hemisphere. In 1983, the United States negotiated the Caribbean Basin Act liberalizing trade and investment, in 1985 the United States and Mexico signed a Bilateral Agreement on Subsidies and Countervailing Duties and in 1987 a Framework Agreement on Investment and Trade. The negotiation of the Canada-United States Free Trade Agreement (CUSFTA) took place in 1988. By 1991, Canada, Mexico and the United States had begun negotiations for a trilateral free trade agreement to include investment, financial services, telecommunications and transportation.

Various objectives were behind forming NAFTA. For the United States, NAFTA was viewed as enhancing an already growing export market into Mexico with intermediate, capital goods, and high-technology goods forming the bulk of the value. There is also a foreign policy dimension. The United States views it as a way of assuring that democratic and economic reforms undertaken in Mexico become irreversible. A politically stable neighbour is of strategic importance for the United States. NAFTA was also seen as a way of containing Mexican immigration to the United States, a problem that has been growing as a political issue.

For Mexico, joining NAFTA was a way of reinforcing market-oriented policy reforms implemented since 1985 by extending the reform process to sectors such as automobiles, textiles and apparel, finance, telecommunications and land transportation. By joining NAFTA, Mexico would have ready access to the United States market, and further increase foreign investment.

For Canada, NAFTA would reinforce preferential entry into the United States market, while improving Canada's access to the Mexican market in key sectors such as financial services, automobiles, and government procurement. It would also ensure access to Latin America, providing an important means of strengthening trade and investment while offsetting the predominance of the United States as the strongest economy in the hemisphere.

For Latin America, NAFTA serves as a model to those countries contemplating following a similar course. NAFTA is viewed as a means to improve trade with the United States, but its main attractions are threefold: i) a way to attract foreign direct investment; ii) politically, making it harder for future governments to go back on restructuring reforms adopted by current market-oriented governments; and iii) not being left out of a major trading bloc as international competition intensifies the above-mentioned areas of capital, market access and technology.

NAFTA, unlike other previous free trade agreements in the region, not only includes the removal of barriers to trade such as tariffs and quotas but covers newer areas like services and protection of intellectual property. It also touches on non-traditional issues such as the environment and labour standards, questions of human rights, trade-offs between national autonomy and economic integration and the impact of integrating a lower-wage country into a high-wage region.

According to various studies, the overall impact of NAFTA is expected to vary for each of the three countries. Some sectors will gain more than the average while others will suffer in terms of short-term losses of output and employment (Kehoe, 1994, pp. 3 and 11). The most significant dynamic impact of NAFTA on Canada and the United States could be related to Mexican growth providing favourable investment opportunities and markets for exports in the other countries. The results of various other studies indicate that the impact of NAFTA as a percentage of gross domestic product (GDP) through general equilibrium models is largest in Mexico and smallest in the United States, with Canada falling in between, although the absolute gain may be largest in the United States.

A comparison between Spain's entry into the European Union in 1986 has also been cited as a way of comparing Mexico's entry into NAFTA. The most important aspect of Spain's entry into the European Union has been the sharp increase in foreign investment which is closely related to increases in GDP and imports (Kehoe, 1994, p. 16). NAFTA could be expected to repeat this pattern, with substantial increases in GDP fuelled by foreign and domestic investment with increases in imports translating into large trade deficits for Mexico.

Nevertheless, it is important to point out that economic models cannot reliably predict how these effects will be distributed throughout society. Nor is it clear how to structure an agreement to increase the benefits of trade or accurately estimate the types of changes that may take place in terms of politics and investor psychology following an integration of this type.

With this caveat, the following section will examine the complex and broadly divergent views in American society and the American political system resulting from the NAFTA debate, which continues today to be a heated issue.

B. UNITED STATES POLITICAL DIMENSION OF NAFTA

NAFTA is not only an economic tool but also an agreement with important implications politically and culturally. The relationship between the United States and Mexico has changed profoundly in the past 10 years. For Mexico, free trade represented a fundamental shift from the past, linking the country's future to its relations with the United States. The unilateral opening of the Mexican market, and that market's search for foreign direct investment, has led to significant and unprecedented social and economic links between Mexico and the United States, while Mexico has been liberalizing its economy, its political structure has been opening itself to change at a much slower pace, and NAFTA is accelerating this process (Baer and Weintraub, 1994a, p. 179).

In the United States the NAFTA debate was so intense and divisive that it became one of the most controversial issues in United States history, and the debate continues today. There are groups that favour the Agreement and see it as a stimulus to the economies of the United States and Mexico. There are others who adamantly oppose it. Their reasons for opposing the Agreement range from issues such as labour, the environment, special interest groups, immigration, racism, political advantage and self-interest. All these different forces form a coalition with enough weight in United States party politics to dent and sometimes change congressional or White House support. An issue which may make economic sense may be voted against in response to other forces regarded as taking precedence, as will be analysed in detail below.

1. Groups in favour of NAFTA

Various groups in the United States are in favour of NAFTA. Most of the major United States business groups support it. They include the National Association of Manufacturers, which accounts for 85% of United States manufacturing output and jobs, the United States Chamber of Commerce, the Business Roundtable, a group that represents more than 200 major United States corporations, the Council of the Americas, which represents United States business interests in Latin America, the Automotive Parts and Accessories Association, although they are aware that there will be some negative effects. Most small business groups and associations also believe NAFTA will result in a net gain in jobs and income for both countries. The vast majority of mainstream United States academicians and think-tanks also favour the agreement. They also recognize that some United States workers will be hurt in the short run and will require retraining, but in the longer term, Canadians, Americans and Mexicans will all benefit (Wiarda, 1994, p. 122). In sum, the positive forces inside the United States view the agreement in the long term; more jobs will be created than lost, economic growth will be stimulated in all countries, per capita income will rise, social programmes can be advanced, and political stability in Mexico can be assured. Furthermore, members of Congress privately also recognize the strength of these arguments. All things being equal, NAFTA should have been welcomed and extended with little difficulty. However, this is not what happened. Not only was there opposition to NAFTA and to accession by other countries, but some groups are questioning its existence altogether.

2. Groups that oppose NAFTA

There are other more compelling reasons for not supporting NAFTA or expanding it which are not talked about as openly. A dislike for and condescension towards Mexico, racism, prejudice, defensive and

nationalistic sentiment, and the wish for stronger protectionism. Mexico is an easy target in this respect, as opposed to Japan for instance. It is the issues that are not talked about as openly which in the end may carry more weight in determining the direction NAFTA will take, as will be examined below.

a) Coalition groups

Groups that oppose NAFTA have been formed by individuals with radically different views who put aside their differences and set up a coalition to solidify their opposition to NAFTA. These groups range from the far right to the far left.

The far right has raised the mass immigration problem, appealing to the forces of xenophobia and to isolationist and America-first sentiments groups. The far left, represented by black power groups, and some consumer groups argues that under NAFTA capitalism would prosper at the expense of the workers on both sides and that business would benefit by bypassing United States environmental laws. Although all these fringe groups are small in terms of numbers they have also gained wide support from moralist groups such as the United Methodist and Unitarian Churches, and American Society for the Prevention of Cruelty to Animals.

Another group that opposed NAFTA is organized labour, mainly the AFL-CIO. Their main arguments against NAFTA, which are echoed by other groups, are that a) NAFTA would provide great advantage to capital investors at the expense of workers; b) United States jobs would be exported to Mexico, and increased labour mobility would translate into non-unionized jobs at low wage rates; c) NAFTA would convert Mexico into a giant maquiladora (inboard assembly plant), contributing little to Mexico's own internal industrialization, technological growth and competitiveness; d) NAFTA is more political than economic, putting the jobs of United States workers and constituents in jeopardy (Wiarda, 1995, pp. 124-125).

The strength of the jobs issue is significant, especially because it comes at a time of job insecurity in the United States. Ross Perot, by linking NAFTA to job losses and the state of the United States economy, in the 1992 election campaign turned the NAFTA debate into a presidential election issue, and it will be dealt with as such in the upcoming 1996 elections. With his message that saving American jobs and saving America translates into opposing NAFTA, he captured 19% of the popular vote in 1992, even if he overlooked the fact that although in the short term there will be job losses exports create United States jobs.

Lastly, the environmental groups opposing NAFTA include Greenpeace, Public Citizen and Public Voice. Their main criticisms are that the assessment of potential environmental problems has been minimized and that NAFTA lacks concrete implementation strategies to protect the environment, together with the fact that Mexican environmental laws are too weak to offer adequate safeguards.

In general, all these groups combined raised very emotional issues with the American people, i.e., jobs, the environment and the poor, with the end result of blaming everybody's problem on NAFTA. Added to all of the above are local or regional issues which tilt the pendulum yet further against NAFTA.

b) Commercial groups

The Florida citrus and vegetable growers and the California tuna fisheries are a good example. Farmers in South Florida, the Southwest and California fear an influx of cheaper agricultural products. While United States farmers previously favoured cheap immigrant labour from Mexico, many have now joined with labour leaders and environmentalists in opposing NAFTA. This concern has carried over until today.

At the present time, Mexican fruits and vegetables are cheaper than United-States grown products. Florida and California growers argue that they could lose 30% of their volume in these products once all tariffs are lifted (Wiarda, 1995, p. 127). In the end, citrus and horticultural lobbies in the United States extracted special safeguards for their industry outside NAFTA, but the pressure to do something continues. In this context, according to a December 1995 letter from the Agriculture Secretary and the USTR, the present Administration has agreed to take a series of measures to provide relief to the Florida tomato industry in the face of surges of Mexican tomato imports (Inside U.S. Trade, 1995d). Overall, Florida and California growers feel the Government did not live up to what it promised, e.g., jobs and instead many are losing out to Mexican competition.

C. CONGRESSIONAL ISSUES

All the above-mentioned groups undoubtedly place considerable pressure on Congress and on the White House in their decision as to whether to support NAFTA or not. Politics are local and thus the constituencies will determine re-election or even the political livelihood of a congressman.

Within Congress, most senators and congressmen are in general and in private in favour of free trade —with the exception of some congressional Democrats and the freshman representatives of both parties, who tend to be sceptical about of NAFTA. They want good relations with Mexico, and see the advantages of Mexican stability and economic growth in Mexico as benefiting the United States. Nevertheless, they also have numerous pressures and protectionist demands from their constituencies to contend with, which in the end may carry more weight in how they view the Agreement.

For example, the loss of short-term jobs, which is felt especially strongly in New England, the rustbelt states and the Midwest, where the textile, shoe and automobile industries are located, creates the response that congressmen in these states are not in favour of NAFTA. Another example is labour. Although organized labour is in decline nationwide, some industrial states such as Michigan, Ohio, New York, Pennsylvania, Massachusetts and Illinois are heavily unionized, and aspiring politicians are therefore influenced by what they have to say. Many Democrat congressmen are also dependent on the AFL-CIO for campaign contributions and therefore feel the need to accommodate their demands. Furthermore, there are other representatives who may favour NAFTA in principle but want to be on the right side on environmental issues. They are also aware that Democrats depend more on such constituencies. The end result would be to have lukewarm support or no support for NAFTA.

Besides the linkage between pressure groups and congressional action, the NAFTA issue has also been used for political advantage. It has become politically rewarding to blame the nation's ills on NAFTA and, although this sentiment subsided for a while in 1993, it re-emerged after the peso crisis, making it harder for members of Congress to give their support. The job-losses issues raised by such

different groups as those of Ross Perot and Ralph Nader, and the Black Caucus and others have had a high impact on the Democratic Party because many of these groups vote Democrat, driving most congressional Democrats to adopt a wait-and-see attitude when dealing with anything having to do with NAFTA.

D. PRESIDENTIAL ISSUES

NAFTA also became a presidential issue. Never before had there been a trade issue as closely related to election or re-election possibilities as NAFTA. For this reason, political and re-election considerations may be the most important factor in supporting or extending NAFTA and even in questioning the present NAFTA.

As mentioned in the first section, United States trade politics has become one of conflicts between Congress and the White House with heavy politicization of issues motivated by political and personal advantage and involving interest groups and not necessarily in the country's or public economic interest. In Washington, issues are seldom dealt with on merits alone. How Congress views a President and the direction that political events take changes very rapidly. At the moment there is no real support for the fast track from either Democrats or Republicans. There is scepticism about further expansion of NAFTA and further integration in the near future, even in the case of Chile, which was invited to join NAFTA during the Summit of the Americas, as will be discussed below.

1. Accession of Chile to NAFTA and fast-track approval

NAFTA is far from being considered fully implemented. Enforcement and monitoring mechanisms need to be solidified. The impact of NAFTA on the economies and politics of the three member countries has not yet been consolidated. Furthermore, the unpopularity of NAFTA regarding entry for Mexico has made the public, Congress and politicians in general weary and cautious about embarking on further free trade agreements. Chile, which was the next country in line (it was actually considered before Mexico) is now having difficulties in starting real negotiations because of partisan warfare on fast-track authority.

A year into the peso crisis and despite recent turbulence in the Mexican economy caused by the devaluation of the peso, United States business to Mexico is still strong and growing. Although there was a great outflow of short-term investment, direct investment —including building plants, equipment and services— has continued to flow into Mexico and the rest of Latin America (The Washington Post, 1995). However, the crisis soured congressional support for NAFTA, raising concerns about the speed at which the integration process should take place. While the Administration credited NAFTA for Mexico not reverting to raising tariffs and other barriers to trade following the peso crisis, and for Mexico restoring stability to its economy in a very short period of time, it also admitted that because of the peso crisis United States benefits from NAFTA have not been fully realized.

The peso's collapse threatened to spread financial panic in South America and called into question the ability of Latin American governments to push economic reform and readiness to join an agreement such as NAFTA. As a consequence NAFTA itself is under attack. Mexico's devaluation has made its exports very competitive in the United States, further irritating American protectionists, who argue that if Chile is to join NAFTA it must be prohibited from following Mexico's example (The Economist, 1995,

p. 35). For all the above-mentioned reasons, the prospects for a widening of NAFTA in the near future do not appear very encouraging.

In response to the stalemate over renewal of fast-track negotiating authority, Canada initiated an "interim" bilateral free trade agreement with Chile that would eventually convert into NAFTA. Canada has made Chile's accession to NAFTA a major trade policy priority. Chile's accession is seen as ensuring that the Agreement remains dynamic, flexible and outward-looking, as opposed to becoming a hub-and-spoke framework or a patchwork of bilateral agreements between Latin America and the United States.[10] The accession of Chile is considered to be a critical first step in ensuring that the accession process actually works. This is also consistent with Canada's desire to see free trade throughout the hemisphere by 2005, as agreed at the Miami Summit of the Americas meeting. Although some United States officials view bilateral agreements as a way to keep the momentum going towards an FTAA in the absence of the fast track, Canadians favour NAFTA accession as the best way to achieve regional trade integration (Inside U.S. Trade, 1995e, p. 13).

2. The NAFTA process and its extension to other countries

In general, NAFTA was and still is "an emotional, nationalistic, highly political and even xenophobic issue where rational argument was often sacrificed to deeper emotions" (Baer and Wiarda, pp. 135 and 183). Most importantly, attention in United States politics is now focused upon the next presidential election in 1996, which implies that domestic considerations will be at the top of the agenda, placing serious constraints on further economic integration for the time being. The Administration going into an election campaign, is presently more interested in pacifying those groups that oppose NAFTA than in pursuing the fast track. The focus in Washington is presently on the federal budget and Bosnia.

Emphasis is presently being given to the extension of the Generalized System of Preferences programme and obtaining NAFTA parity for Caribbean Basin Initiative countries. At the same time, the Senate Majority Leader, Robert Dole, is advocating a cooling-off period for further trade talks (Inside U.S. Trade, 1995f, p. 7) and waiting to assess the results of NAFTA and the Uruguay Round agreement first. He also criticized the present Administration's use of the fast track in the approval of both NAFTA and the Uruguay Round. The biggest hurdle, however, in the upcoming presidential elections are forces like Pat Buchanan, Ross Perot, and other above-mentioned groups, which raises the likelihood of the fast track being shelved for a year. Despite this outcome, however, at the moment the Administration appears to still be committed to continuing with the Summit of the Americas agenda, as will be analysed below.

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[10] For a discussion, see, Rich (1994, p. 4).

V. THE FORMATION OF THE FREE TRADE AREA OF THE AMERICAS

The leaders of 34 western hemisphere nations that participated in the Summit of the Americas in Miami, in December 1994, undertook to negotiate an accord that would integrate the Americas into a single "Free Trade Area of the Americas" (FTAA). The free trade area was to be consistent with the provisions of WTO, would not erect barriers against third countries and would have one set of rules and obligations. Negotiations were scheduled to be concluded no later than 2005, and concrete progress towards the attainment of this objective was to be achieved by the end of this century.

A. ITS PURPOSE AND IMPLEMENTATION

The ultimate goal of the FTAA (Office of the United States Trade Representative, 1994, p. 89) goes beyond trade liberalization, to include creating stronger mechanisms that promote and protect the flow of productive investment in the hemisphere, and promote the development and progressive integration of capital markets. In addition, there will be new cooperation on infrastructure projects in telecommunications, energy, and transportation to provide an important stimulus to integration efforts (Schott, 1995, p. 4).

In preparation for future negotiations leading to the eventual creation of a Free Trade Area of the Americas, seven working groups were initially established at the first meeting of Ministers responsible for trade in June 1995, covering market access, customs procedures and rules of origin, investment, standards and technical barriers to trade, sanitary and phytosanitary measures, subsidies, and antidumping and countervailing duties; and a working group on the smaller economies was set up. Another four working groups were established at the second Ministerial Meeting in March 1996, covering government procurement, intellectual property rights, services, and competition policy. These groups' tasks were to identify and examine specific trade issues in each area in order to provide background information and economic analysis, and identify areas of agreement and disagreement on the subject-matter, facilitating future negotiations in these areas during the formation of the FTAA. The groups are open to participation by all countries.

The results of the Miami Summit on December 1994 left a feeling of progress and accomplishment and were seen as the best step taken by the United States towards Latin America in decades. The feeling was then one of harmonious United States-Latin American relations, marking a new era (Wiarda, 1995, p. 44). These were impressive results, given the lack of United States preparation for this meeting, and given the ambivalence of the United States as to the form the Summit should take —the present Administration announced the Summit, sent out invitations, and then ignored the proposal for much of 1994.

The "fast-track" negotiating authority in Congress having been lost, there was a feeling at the time, among United States negotiators, that the United States would not be able to truly make a commitment to a hemispheric free trade area. However, in the run-up to the Summit, while the United States did not have a clear agenda on what the outcome of the summit was to be, Latin America took the initiative by pushing the United States to focus mainly on trade issues. The support of private United States business for trade to be high on the agenda was also a contributing factor. Other issues were also included, e.g., human rights, drug trafficking, and government reform. Amidst general enthusiasm and remarkable consensus on its objectives and the form of the tasks ahead, the first Summit also left many questions unanswered. Some of these questions were addressed at the second Ministerial Meeting, in Cartagena; others that remain to be addressed will determine the path to be taken and how long it will take to reach the goal, and as will be discussed below.

B. GETTING THERE AND PROSPECTS IN THE PRESENT CONTEXT

The project of working towards an FTAA is an initiating exercise. In this context, how to get to the point of setting up the FTAA has not been determined. It now appears that countries are following the path of convergence of the principal accords, and not that of expanding one of the large regional accords. How this will be achieved still needs to be decided. It is not known which accords will be the basis for the convergence or whether there will be a process of convergence of regional agreements in phases, leading toward hemispheric integration.[11]

Brazil prefers to deepen MERCOSUR and then consider its relationship with NAFTA. MERCOSUR has also indicated an interest in setting up FTAs with other non-member countries such as Chile and Bolivia. NAFTA does not have such a clear path. The United States Administration does not have fast-track approval, or even a clear indication of what a new fast-track authority should contain; apart from the possibility of Chile joining NAFTA, membership for other countries at all soon is only a remote possibility. Canada wishes to expand NAFTA as an integral part of proceeding towards an FTAA. It favours one consolidated set of trade rules, as opposed to a patchwork of bilateral and subregional arrangements. Another option is the "concentric circle approach", which is similar to the different speeds of integration proposed in the European Union for its member and future member countries. A core agreement among countries ready to fulfil NAFTA obligations and enter into affiliations, while other countries that are not ready will eventually join when they are prepared for membership.

Among the various alternative paths towards an FTAA, two proposals have been put forward that the United States Government has taken an interest in: a) a hemispheric agreement in specific functional areas such as investment, intellectual property, and dispute settlement, or b) agreements in these areas, but only with those countries considered to be ready, with these agreements being extended to other countries as their economies are able to meet the obligations inherent in them. Such agreements are viewed as stepping-stones towards an eventual FTAA, but they run the risk of leading nowhere. It is hoped that by the next ministerial meeting, in 1997, there will be a better idea of what shape the FTAA should take.

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[11] See address by Cesar Gaviria, Organization of American States, at the Business Forum of the Americas, Cartagena, Colombia, March, 1996.

Another pressing issue is the content of the agreement. What obligations and rights will be in the agreement? Will the agreement go beyond the obligations and rights specified in the case of WTO? How ambitious should it be? In the construction of this agreement the private sector has been assigned an important role. Active participation of the private sector guarantees that the process will help build a successful FTAA and help mobilize public opinion in favour of the creation of an FTAA both in Latin America and the United States. Already the private sector has presented recommendations based on early action, openness in establishing policies, programmes and rules and a growing convergence of regulations governing trade and investment, especially establishing efficient customs procedures, health and plant inspection rules and technical barriers.

Taking into account all of the above, what are the present prospects for an FTAA? Although since the Miami Summit doubts have been raised about the possibility of creating the FTAA in the near future, there appears to be a sincere commitment on the part of government officials to pursue this goal. However, there have been difficulties that merit attention, as they may affect the speed at which the FTAA will be set up and the shape it will take.

First, the failure to grant fast-track authority to the Executive and the postponement of Chile's accession to NAFTA may cause delays in reaching the target agreed upon at the Summit (Inside U.S. Trade, 1995g, p. 9). It is also noteworthy that the Miami Declaration does not contain a commitment to achieve free trade by 2005 but only to begin implementation of the agreement. Thereafter, completion of a transition period will be required to achieve free trade (Schott, 1995, p. 14). How long that would take is another matter. The Mexican crisis could very well influence the pace of integration efforts in the western hemisphere over the short term. Furthermore, the United States could define a new strategy of expansion for other countries or it can substantially ignore the issue.

Another important aspect not very much talked about is that there is very little public money to help implement the FTAA. The funds allotted to the United States Agency for International Development are now negligible, the United States State Department has no funds for the project, and the United States Congress and the public are in a "cost-cutting mood" to balance the United States budget (Wiarda, 1995, p. 55). In all this, the clear message is not necessarily that one should be discouraged as to the feasibility of an FTAA but that one should better understand the political economics of integration and the reality of decision-making in all countries.

Trade, as part of other political issues, is highly volatile. One can only project a possible scenario; the final outcome is difficult to predict because events and issues are always changing. Whatever else, what is true is that preferential arrangements have led to significant increases in intrahemispheric trade and new vested interests are constantly forming. There is a genuine desire on the part of all countries for open integration, but there are many difficulties, including the 1996 presidential elections in the United States, which have contributed to dampening the initial enthusiasm for hemispheric integration. Nevertheless, the last ministerial meeting, in March 1996, gave added impetus to bringing integration in the hemisphere a step closer to reality.

VI. CONCLUSIONS AND RECOMMENDATIONS

American trade politics has drastically changed in the past decade. There have been constant conflicts between Congress and the White House, with heavy politicization of issues motivated by political and personal advantage and involving interest groups, and not necessarily in the country's or public economic interest. The political situation is now more partisan, and there is less commitment to liberal trade. For these reasons, United States trade politics has become complex and at times contradictory when it comes to formulating international trade policy.

Trade policy has been closely linked to specific interest groups according to their political strength, and trade itself has become a hotly contested issue in American society. Politicians are more inclined than ever before to give in to outside pressure in exchange for votes. These changes have a strong impact on present and future trade policy with respect to Latin America and the process of integrating the Americas. For instance, the failure to renew the fast-track system and the consequent postponement of Chile's accession to NAFTA is a result of congressional sensitivity to public opinion on trade issues.

Latin America is the second fastest-growing region in the world and one of the primary export markets for the United States. The United States trade balance with Latin America has also been roughly in balance. These are the principal reasons for the United States to embark on a hemispheric regional trade. The United States exports mostly high-tech equipment and industrial goods, precisely the kind of goods the United States wants to be producing more of in the future and where it is competing most vigorously with Japan and the East Asian NICs. These industries are the ones that will support FTAs with Latin America. Correspondingly, there is little reason for agricultural interests in the United States to support FTAs. In the short term they are unlikely to get much out of it, and might open themselves up to more competition.

In the United States the NAFTA debate was so intense and divisive that it became one of the most controversial issues in United States history, and the debate continues to this day. Although on the basis of its own economic merits NAFTA should be welcomed by all actors involved, not only has there been strong opposition, but some groups are questioning its existence altogether. There are more compelling reasons for not supporting NAFTA or expanding it that are not talked about as openly. They range from prejudice, defensive and nationalistic sentiment, racism, political advantage, self-interest and protectionism. NAFTA also became a presidential issue. Never before had there been a trade issue so closely related to election or re-election possibilities.

The unpopularity of NAFTA regarding entry for Mexico has made the public, Congress and politicians in general weary and cautious about expanding NAFTA to other countries for the time being. The Mexican crisis in particular soured congressional support for further integration. Although the results of the Miami Summit left a feeling of progress and accomplishment, the Summit also left unanswered many questions regarding the formation of the FTAA that need to be addressed. There is also little

funding in the United States to help implement the FTAA. At the moment, going into an election campaign, the present Administration is more interested in pacifying those groups that oppose NAFTA than in pursuing the fast track or further integration.

On a brighter note, what is true is that preferential arrangements have led to significant increases in intrahemispheric trade and new vested interests are being formed that in the end will help shape the direction of future trade policy in the United States. The prevailing assumption of United States policymakers is one of confidence over the long run about Latin America. There appears to be a genuine commitment on the part of the United States to construct an FTAA, but in the end the willingness to follow through is not clear. Trade alone will not be the determining factor. United States public attitudes towards Latin America as a whole remain narrowly focused and ambivalent. Brazil's independent stance on the region's free trade process may also weaken hemispheric objectives. There are two important and potentially competing subregional groupings in the hemisphere, NAFTA and MERCOSUR, each with a dominant member. The desirability of and prospects regarding hemispheric integration will largely depend in the end on the commitment of the two subgroupings.

In this environment of conflicting interests, the following specific recommendations are suggested.

1. In order to strengthen the negotiating position of member countries and enable them to participate more actively in the process of integration, planning should be based on forecasts of the political climate in Washington as much as on economic principles, since United States trade politics is now more partisan and less committed to liberal trade.

2. United States trade policy is closely linked to specific interest groups according to their political strength. This means Latin America could greatly benefit from addressing these groups and gain support from those that stand to benefit from increases in trade. In the case of Latin America, it is the manufacturing sector and not the agricultural sector that stand to gain from further integration, e.g., automobiles, computers and telecommunications. Latin America should negotiate with these groups from the position of a "buyer" and not from the position of a "seller". Those countries that are the principal buyers of United States goods and are growing and thus are in a stronger position to negotiate are Brazil, Mexico, Argentina, Colombia and Venezuela.

3. It is important to emphasize to the United States public and lobby groups, that Latin American countries are more important trading partners than many other larger or better known countries in the rest of the world. In the United States this is not that well known.

4. The fact that the United States is approximately in balance on trade flows with Latin America, unlike the Asia-Pacific region, should provide some political mileage for Latin American governments during negotiations. In the same vein, to avoid having the same frictions as with the Pacific Rim countries both sides should keep their markets open.

5. Now that the United States appears to be committed to embarking on further integration with the region, the area of antidumping duties is the most important item to negotiate one-to-one and as a group in WTO because this has become the protectionist instrument of choice in United States trade. Although the Uruguay Round Agreement addressed this issue, in the end substantial changes were watered down considerably leaving less than desired results.

6. The export composition for Latin America to the United States indicates that 30% of exports going to the United States are in semi-manufactured and manufactured goods, which is not so in the case of other regions of the world. This may indicate that the United States is a more attractive market as regards diversification towards higher value-added goods as opposed to other countries.

7. United States public attitudes towards Latin America as a whole remain narrowly focused and ambivalent. To correct misperceptions, better information and a better understanding of what Latin America is about and has to offer are of paramount importance. This would be best done by dealing with Latin America as a group, and not by each country trying to convince the world that it is different from the rest of the region. Business trips, research missions by United States politicians to Latin America and positive media coverage of the region in the United States would go a long way towards improving the United States public's opinion of the region.

8. Because NAFTA was linked to job losses and the state of the economy in the 1992 presidential election campaign, the NAFTA debate became a presidential election issue and will be dealt with as such in the upcoming 1996 elections. For this reason, Latin America should be cautious about expecting quick results in United States trade policy in this area.

9. The peso crisis had short-term negative effects on the United States. In particular, it soured congressional support for further FTAs and for the need to further understand the mechanics of exchange rate issues. Member governments should be aware of this change.

10. Two other important aspects that need to be kept in mind are that the Miami Declaration does not contain a commitment to achieving free trade by 2005 but only to begin the implementation of the agreement. Thereafter, the completion of a transition period will be required to achieve free trade. How long that would take depends on the parties involved. The United States could define a new strategy of expansion or it can ignore the issue. This means Latin America should pursue other options for furthering trade with other regions as well.

11. It should also be taken into account that there is very little public money in the United States to help implement the FTAA and there is not likely to be anymore in the near future, given the present cost-cutting mood resulting from the need to balance the United States budget. This will make it that much harder to implement an FTAA.

12. In order to provide an important stimulus to integration efforts, stronger mechanisms that promote and protect the flow of productive investment, encourage economic development and progressive integration of capital markets need to be created. For this to take place, new cooperation on infrastructure projects in telecommunications, energy and transportation are needed.

13. All available alternative paths towards integration should be studied seriously, because there is no right or wrong route. There are two important and potentially competing subregional groupings, NAFTA and MERCOSUR, each with a dominant member. These two subgroupings account for 95% of the hemisphere's GDP and more than 85% of intraregional trade. Developments in the subgroupings should be followed closely in order to get a better grasp of the speed at which integration might progress and the direction it might take.

14. Economics is not the only consideration in determining the pace and direction of integration in the hemisphere. Other forces may take precedence in voting for or against in the United States. For instance, opposition to NAFTA is based on well-known issues such as labour and the environment, but immigration, racism, political advantage and self-interest also play an important role. It is the issues that are not talked about that may ultimately carry more weight, and that should be kept in mind by member Governments when trying to understand how politicians will vote in the end.

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Annex 1

UNITED STATES EXPORTS, 1990-1994

(Millions of US dollars)

Area	1990	1991	1992	1993	1994	% change*
World	393,106	421,743	447,366	465,353	512,397	30.3
Canada	82,959	85,146	90,156	100,191	114,255	37.7
Japan	48,585	48,147	47,764	47,950	53,481	10.1
European Union	98,086	103,120	102,851	97,759	102,820	4.8
Other	114,532	126,809	135,500	146,095	154,206	34.6
Latin America	48,944	58,521	71,095	73,358	87,635	79.1
Argentina	1,179	2,049	3,222	3,772	4,466	278.8
Bolivia	138	190	222	216	186	34.8
Brazil	5,062	6,154	5,740	6,045	8,119	60.4
Chile	1,672	1,840	2,455	2,605	2,776	66.0
Colombia	2,038	1,947	3,282	3,229	4,070	99.7
Costa Rica	992	1,034	1,348	1,547	1,867	88.2
Dominican Republic	1,658	1,743	2,098	2,350	2,800	68.9
Ecuador	680	948	999	1,098	1,196	75.9
El Salvador	556	534	741	869	932	67.6
Guatemala	759	951	1,208	1,310	1,355	78.5
Honduras	563	627	808	898	1,012	79.8
Mexico	28,375	33,276	40,598	41,636	50,840	79.2
Nicaragua	68	147	188	150	185	172.1
Panama	867	981	1,100	1,191	1,276	47.2
Paraguay	307	375	415	521	794	158.6
Peru	778	840	1,002	1,069	1,408	81.0
Uruguay	145	217	231	253	311	114.5
Venezuela	3,107	4,668	5,438	4,599	4,042	30.1

Source: IMF, Direction of Trade Statistics Yearbook, Washington, D.C., July 1995.

* Cumulative percentage change, 1990-1994.

Annex 2

TOP 10 COMMODITIES IMPORTED FROM THE UNITED STATES, 1993
(In thousands of current US dollars)

Commodity	Imported from the United States	
	Value in dollars	Percentage
Automatic data processing machines	377,914	9.91
Telecommunications equipment	239,059	6.27
Aircraft and associated equipment	186,281	4.89
Polymerization products	93,194	2.44
Printing and bookbinding machinery	91,386	2.40
Rotating electric plant and parts	88,637	2.32
Passenger motor cars	82,333	2.16
Electrical machinery and apparatuses	80,404	2.11
Miscellaneous chemical products	78,456	2.06
Organo-inorganic and heterocyclic compounds	74,360	1.95
Other products	2,420,938	63.49
Totals	3,812,962	100

Bolivia

Commodity	Imported from the United States	
	Value in dollars	Percentage
Wheat and meslin, unmilled	23,242	8.98
Engineering equipment and parts	16,739	6.47
Petroleum products	10,783	4.17
Aircraft and associated equipment	9,501	3.67
Automatic data processing machines	7,462	2.88
Other inorganic chemical products	7,284	2.81
Motor vehicles for transport	7,156	2.76
Other cereal meals and flours	5,887	2.27
Telecommunications equipment	5,459	2.11
Motor vehicle parts and accessories	5,363	2.07
Other products	160,002	61.81
Totals	258,878	100

Annex 2 (cont.1)

Brazil

Commodity	Imported from the United States	
	Value in dollars	Percentage
Automatic data processing machines	414,501	6.51
Petroleum products	307,060	4.82
Aircraft and associated equipment	303,481	4.76
Coal, lignite and peat	274,526	4.31
Parts and accessories for office machines	255,733	4.02
Cathode valves and tubes, transistors	222,205	3.49
Nitrogen function compounds	179,552	2.82
Telecommunications equipment	171,082	2.69
Non electric parts and accessories	158,838	2.49
Measuring and controlling instruments	157,250	2.47
Other products	3,924,894	61.62
Totals	6,369,122	100

Colombia

Commodity	Imported from the United States	
	Value in dollars	Percentage
Aircraft and associated equipment	195,643	6.02
Automatic data processing machines	170,477	5.25
Road motor vehicles	140,049	4.31
Hydrocarbons and their derivatives	130,553	4.02
Rotating electric plant and parts	120,082	3.70
Polymerization products	105,616	3.25
Paper and paperboard	73,894	2.27
Motor vehicles for transport	73,691	2.27
Other special machinery	71,167	2.19
Non electrical parts and accessories	70,806	2.18
Other products	2,097,247	64.55
Totals	3,249,225	100

Annex 2 (cont.2)

Chile

Commodity	Imported from the United States	
	Value in dollars	Percentage
Motor vehicles for transport	147,995	5.97
Automatic data processing machines	123,023	4.97
Engineering equipment and parts	113,775	4.59
Other special machinery and equipment	92,944	3.75
Non electric parts and accessories	79,930	3.23
Mechanical handling equipment	78,212	3.16
Polymerization products	62,244	2.51
Telecommunications equipment	61,861	2.50
Heating and cooling equipment	56,787	2.29
Fertilizers, manufactured	56,413	2.28
Other products	1,603,896	64.75
Totals	2,477,080	100

Ecuador

Commodity	Imported from the United States	
	Value in dollars	Percentage
Internal combustion engines	36,157	4.46
Wheat and meslin, unmilled	34,749	4.29
Engineering machinery and equipment	33,419	4.13
Ingots, other primary forms of iron and steel	30,693	3.79
Automatic data processing machines	27,183	3.36
Passenger motor cars	26,483	3.27
Polymerization products	24,210	2.99
Non electrical parts and accessories	23,498	2.90
Pumps for liquids	21,431	2.65
Motor vehicles for transport	19,234	2.37
Other products	533,064	65.80
Totals	810,121	100

Annex 2 (cont.3)

Mexico

Commodity	Imported from the United States	
	Value in dollars	Percentage
Motor vehicle parts and accessories	5,109,038	10.57
Cathode valves and tubes, transistors	2,139,911	4.43
Articles of artificial resins and plastics	2,028,925	4.20
Electric machinery and apparatuses	1,689,173	3.50
Electrical apparatus for making circuits	1,617,326	3.35
Equipment for distributing electricity	1,606,228	3.32
Manufactures of base metal	1,597,166	3.31
Telecommunications equipment	1,312,640	2.72
Polymerization products	967,140	2.00
Automatic data processing machines	859,063	1.78
Other products	29,394,559	60.83
Totals	48,321,169	100

Paraguay

Commodity	Imported from the United States	
	Value in dollars	Percentage
Tobacco, manufactured	44,893	19.62
Automatic data processing machines	16,842	7.36
Other power generating machinery	12,923	5.65
Television receivers	11,812	5.16
Telecommunications equipment	11,053	4.83
Radio- broadcast receivers	6,675	2.92
Parts and accessories for office machines	5,963	2.61
Musical instruments	5,894	2.58
Toys, games, sporting goods	5,353	2.34
Phonographs, sound recorders and producers	5,096	2.23
Other products	102,317	44.71
Totals	228,821	100

Annex 2 (cont.3)

Peru

Commodity	Imported from the United States	
	Value in dollars	Percentage
Petroleum products	78,987	6.38
Rotating electric plant and parts	66,654	5.38
Wheat and meslin, unmilled	53,897	4.35
Heating and cooling equipment	49,979	4.03
Automatic data processing machines	40,903	3.30
Non electric parts and accessories	38,342	3.09
Polymerization products	37,059	2.99
Miscellaneous chemical products	31,968	2.58
Paper and paperboard	30,138	2.43
Internal combustion engines	28,365	2.29
Other products	782,650	63.17
Totals	1,238,942	100

Uruguay

Commodity	Imported from the United States	
	Value in dollars	Percentage
Automatic data processing machines	15,945	7.61
Fertilizers, manufactured	9,570	4.56
Telecommunications equipment	6,911	3.30
Unmotorized trailers and other vehicles	5,510	2.63
Measuring, checking, and controlling instruments	5,225	2.49
Parts and accessories for office machines	5,193	2.48
Pumps and compressors, fans and blowers	5,050	2.41
Articles of artificial resins and plastics	4,976	2.37
Heating and cooling equipment	4,805	2.29
Electrical machinery and apparatuses	4,557	2.17
Other products	141,906	67.69
Totals	209,648	100

Annex 2 (concl.)

Venezuela

Commodity	Imported from the United States	
	Value in dollars	Percentage
Passenger motor cars	307,613	5.95
Motor vehicles for transport	203,857	3.94
Motor vehicles parts and accessories	200,926	3.89
Heating and cooling equipment	195,147	3.78
Automatic data processing machines	173,813	3.36
Other special equipment and machinery	164,919	3.19
Ships, boats, and floating structures	161,327	3.12
Non electrical parts and accessories	151,971	2.94
Telecommunications equipment	148,727	2.88
Pumps and compressors, fans and blowers	146,639	2.84
Other products	3,312,726	64.10
Totals	5,167,665	100

Source: ECLAC, External Trade Data Bank for Latin America and Caribbean (BADECEL).

Annex 3

TOP 10 COMMODITIES EXPORTED BY LATIN AMERICA, 1993

(Thousands of current US dollars)

Argentina

Commodity	Exported to the United States		Exported to the world	
	Value ($)	Percentage	Value ($)	Percentage
Leather	147,961	11.71	598,756	4.56
Prepared or preserved meat	126,926	10.04	275,592	2.10
Crude petroleum oil	87,399	6.92	527,363	4.02
Fruit, preserved, and fruit preparations	75,359	5.96	124,416	0.95
Manufactures of leather	63,167	5.00	107,898	0.82
Tubes, pipes and fittings, of iron and steel	57,268	4.53	290,904	2.22
Fish, fresh	48,183	3.81	302,250	2.30
Petroleum products, refined	44,932	3.56	606,181	4.62
Jewellery, goldwork, silverwork	40,955	3.24	48,090	0.37
Tobacco, unmanufactured	39,481	3.12	116,979	0.89
Other products	532,093	42.11	10,118,932	77.14
Totals	1,263,724	100	13,117,361	100

Bolivia

Commodity	Exported to the United States		Exported to the world	
	Value ($)	Percentage	Value ($)	Percentage
Tin	83,020	38.65	96,004	11.87
Jewellery, goldwork, silverwork	71,637	33.35	72,880	9.01
Wood, simply worked	19,126	8.90	49,651	6.14
Fruits and nuts	6,729	3.13	15,293	1.89
Outer garments, knitted or crocheted	6,602	3.07	9,714	1.20
Ores of base metals	4,604	2.14	141,059	17.44
Petroleum products, refined	3,376	1.57	6,359	0.79
Miscellaneous non-ferrous base metals	2,965	1.38	6,431	0.79
Ores of precious metals	2,345	1.09	47,760	5.90
Travel goods	1,718	0.80	1,948	0.24
Other products	12,688	5.91	361,840	44.73
Totals	214,810	100	808,939	100

Brazil

Commodity	Exported to the United States		Exported to the world	
	Value ($)	Percentage	Value ($)	Percentage
Shoes	1,366,297	17.33	1,859,596	4.81
Internal combustion engines	323,644	4.11	793,497	2.05
Petroleum products, refined	307,910	3.91	615,520	1.59
Fruit, preserved, and fruit preparations	283,189	3.59	923,708	2.39
Radio-broadcast receivers	282,379	3.58	336,193	0.87
Motor vehicle parts and accessories	264,844	3.36	1,239,440	3.20
Ingots, other primary forms of iron and steel	254,936	3.23	1,743,235	4.50
Coffee and coffee substitutes	239,423	3.04	1,306,402	3.38
Pulp and paper	187,135	2.37	718,438	1.86
Aircraft and associated equipment	186,286	2.36	299,717	0.77
Other products	4,186,254	53.11	28,863,778	74.58
Totals	7,882,297	100	38,699,524	100

Annex 3 (cont.1)

Colombia

Commodity	Exported to the United States		Exported to the world	
	Value ($)	Percentage	Value ($)	Percentage
Crude petroleum oil	818,231	29.03	1,058,571	14.20
Crude vegetable materials	293,338	10.41	385,032	5.17
Coffee and coffee substitutes	224,572	7.97	1,209,402	16.22
Fruits and nuts	201,189	7.14	438,607	5.88
Pearls, precious and semiprecious stone	170,666	6.06	404,089	5.42
Outer garments, women's and girls'	148,522	5.27	198,142	2.66
Petroleum products, refined	127,287	4.52	264,158	3.54
Coal, lignite, peat	94,989	3.37	557,395	7.48
Aircraft and associated equipment	71,938	2.55	96,312	1.29
Outer garments, men's and boys'	59,045	2.10	90,910	1.22
Other products	608,348	21.59	2,752,006	36.92
Totals	2,818,125	100	7,454,624	100

Chile

Commodity	Exported to the United States		Exported to the world	
	Value ($)	Percentage	Value ($)	Percentage
Copper	311,173	20.28	2,646,063	28.43
Fruits and nuts	292,016	19.03	734,687	7.89
Fresh fish	146,222	9.53	502,067	5.39
Wood, simply worked	54,993	3.58	192,180	2.06
Canned fruits	40,517	2.64	143,435	1.54
Inorganic chemical products	39,036	2.54	110,014	1.18
Silver, platinum, etc.	38,105	2.48	82,076	0.88
Manufactured wood products	34,404	2.24	42,842	0.46
Jewellery, goldwork, silverwork	32,741	2.13	37,097	0.40
Alcoholic beverages	30,017	1.96	131,272	1.41
Other products	515,121	33.57	4,686,255	50.35
Totals	1,534,345	100	9,307,988	100

Ecuador

Commodity	Exported to the United States		Exported to the world	
	Value ($)	Percentage	Value ($)	Percentage
Crude petroleum oil	570,092	41.66	1,149,022	38.05
Crustaceans and molluscs	341,476	24.96	468,209	15.50
Fruits and nuts	176,798	12.92	560,732	18.57
Coffee and coffee substitutes	45,391	3.32	107,364	3.56
Fresh fish	39,368	2.88	53,098	1.76
Cocoa	36,899	2.70	78,450	2.60
Vegetable products	29,447	2.15	39,080	1.29
Petroleum products, refined	25,286	1.85	100,842	3.34
Wood, simply worked	11,557	0.84	15,242	0.50
Fish, molluscs, processed	10,320	0.75	71,682	2.37
Other products	81,692	5.97	376,157	12.46
Totals	1,368,326	100	3,019,878	100

Annex 3 (cont 2)

Mexico

Commodity	Exported to the United States		Exported to the world	
	Value ($)	Percentage	Value ($)	Percentage
Crude petroleum oil	4,361,912	10.16	6,485,314	12.50
Passenger motor cars	3,245,447	7.56	4,242,481	8.18
Equipment for distributing electricity	2,756,826	6.42	2,778,354	5.35
Electrical machinery and apparatus	1,931,936	4.50	2,008,824	3.87
Motor vehicle parts and accessories	1,784,231	4.16	2,013,789	3.88
Television receivers	1,753,077	4.08	1,774,014	3.42
Telecommunications equipment	1,662,012	3.87	1,719,531	3.31
Electrical apparatus for making circuits	1,444,212	3.36	1,465,697	2.82
Fresh vegetables	1,210,601	2.82	1,250,985	2.41
Internal combustion engines	1,066,106	2.48	1,653,492	3.19
Other products	21,719,007	50.59	26,493,905	51.06
Totals	42,935,367	100	51,886,386	100

Paraguay

Commodity	Exported to the United States		Exported to the world	
	Value ($)	Percentage	Value ($)	Percentage
Leather	15,473	29.27	50,412	6.95
Oil seeds and oleaginous fruit	14,953	28.29	225,622	31.11
Veneers, plywood, and other wood, worked	9,287	17.57	19,821	2.73
Vegetable oils	2,521	4.77	6,545	0.90
Sugar and honey	2,277	4.31	2,277	0.31
Travel products	1,252	2.37	1,768	0.24
Alcohols, phenols and derivatives	1,079	2.04	1,573	0.22
Wood, simply worked	814	1.54	41,381	5.71
Animal feed	793	1.50	58,627	8.08
Essential oils, perfume and flavour materials	774	1.46	6,580	0.91
Other products	3,641	6.89	310,633	42.83
Totals	52,864	100	725,239	100

Peru

Commodity	Exported to the United States		Exported to the world	
	Value ($)	Percentage	Value ($)	Percentage
Petroleum products, refined	157,827	20.95	199,670	5.99
Animal feed	91,417	12.13	587,680	17.63
Jewellery, goldwork, silverwork	62,246	8.26	67,534	2.03
Silver, platinum, etc.	52,616	6.98	73,736	2.21
Clothing and accesories	45,915	6.09	74,028	2.22
Zinc	38,817	5.15	128,235	3.85
Copper	33,378	4.43	636,610	19.10
Stitched or crocheted clothing	28,656	3.80	70,501	2.11
Crustaceans or molluscs	23,441	3.11	48,510	1.46
Cotton knits	13,594	1.80	23,288	0.70
Other products	205,494	27.28	1,423,623	42.71
Totals	753,401	100	3,333,415	100

Annex 3 (concl.)

Uruguay

Commodity	Exported to the United States		Exported to the world	
	Value ($)	Percentage	Value ($)	Percentage
Leather	33,114	23.40	100,441	6.25
Clothing and accessories	19,288	13.63	59,245	3.69
Shoes	15,940	11.27	24,517	1.53
Fresh fish	11,938	8.44	66,874	4.16
Prepared or canned meat	11,194	7.91	23,828	1.48
Wool and other animal hair	11,019	7.79	60,837	3.79
Outer garments and accesories	8,095	5.72	18,681	1.16
Textile fibre knits	7,382	5.22	53,811	3.35
Outer garments, men's and boys'	4,961	3.51	29,741	1.85
Outer garments, women's and girls'	4,912	3.47	23,637	1.47
Other products	13,645	9.64	1,145,003	71.27
Totals	141,488	100	1,606,615	100

Venezuela

Commodity	Exported to the United States		Exported to the world	
	Value ($)	Percentage	Value ($)	Percentage
Crude petroleum oil	4,798,117	60.94	7,318,833	48.13
Petroleum products, refined	2,274,031	28.88	4,467,017	29.37
Aluminium	108,355	1.38	555,053	3.65
Organic chemical products	89,779	1.14	120,810	0.79
Pig-iron, iron or steel powders and shot	79,478	1.01	104,819	0.69
Motor vehicle parts and accesories	71,720	0.91	92,242	0.61
Ingots, other primary forms of iron and steel	42,138	0.54	175,101	1.15
Coal, lignite, peat	39,587	0.50	129,477	0.85
Fruits and nuts	30,394	0.39	50,197	0.33
Crustaceans and molluscs	30,354	0.39	40,790	0.27
Other products	309,740	3.93	2,153,542	14.16
Totals	7,873,693	100	15,207,881	100

Source: ECLAC, External Trade Data Bank for Latin America and the Caribbean (BADECEL).